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BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA

In the Matter of the Private Passenger Rate
Increase Application of the California
Automobile Assigned Risk Plan for the
California Low Cost Automobile Insurance
Pilot Program,

Applicant.

FILE NO. RH03026431

DECISION AND ORDER

The 2003 rate application of the California Automobile Assigned Risk Plan (CAARP) for the California Low Cost Automobile Insurance Pilot Program, proposing to increase rates and maintain the surcharge for certain drivers, came on for public hearing on May 7, 2003. Written testimony and exhibits were received and statements, arguments and public comments were heard. At the conclusion of the hearing, the record was left open until the close of business on May 16, 2003 to permit the submission of additional information, which has also been considered.

BACKGROUND

Effective March 1, 2003, recently enacted low cost automobile insurance program legislation, Stats. 2002, chapter 742 (formerly Senate Bill 1427 Escutia), reduced premiums from \$450 to \$347 for Los Angeles County and from \$410 to \$314 for the City and County of San Francisco. California Insurance Code Sections 11629.72(c) and 11629.92(c) provide that,

1 annually, CAARP shall submit to the Commissioner a proposed rate and surcharge for approval.
2 Accordingly, CAARP submitted a proposal, which was received by the Commissioner on January
3 3, 2003. Rather than maintain the statutory reductions, CAARP proposed to increase the rates to
4 \$450 for Los Angeles County and \$410 for the City and County of San Francisco. CAARP
5 further proposed to maintain the 25 percent surcharge rate.

6 The statutes specify that rates shall be sufficient to cover losses incurred under policies
7 issued under the pilot program and expenses. In assessing loss reserves, the Commissioner shall
8 only allow loss reserves estimated from actual losses in the pilot programs or comparable data by
9 a licensed statistical agent, adjusted to reflect coverage provided by the pilot programs. Rates
10 shall be set so as to result in no subsidy of the program or subsidy of policyholders in one pilot
11 program by policyholders in the other pilot program. In accordance with these rate-setting
12 standards, on February 26, 2003, the Commissioner issued a Notice of Proposed Action and
13 Notice of Public Hearing and Initial Statement of Reasons to consider CAARP's proposal and
14 rate alternatives.

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16 Because actual claims experience for the Low Cost Automobile Insurance Program is too
17 low for credibility, CAARP analyzed comparable data, as provided by statute. Contending that
18 CAARP policyholders are more like low cost automobile policyholders, CAARP used CAARP
19 policyholder data as its source data. Based on its analysis of CAARP data, it proposed reinstating
20 premiums to the initial rates of \$450 and \$410 for Los Angeles County and the City and County
21 of San Francisco, respectively.

22 **DECISION**

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24 After carefully considering CAARP's rate recommendation and oral and written
25 comments submitted during the public hearing period, the Commissioner has determined to
26 maintain current statutory premiums of \$347 for Los Angeles County and \$314 for the City and
27 County of San Francisco. In addition, the Commissioner has determined to adopt CAARP's
28 recommendation to maintain the current 25 percent surcharge for unmarried male drivers ages 19

1 through 24 years of age.

2 **Comparable Data**

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4 The Commissioner finds that the use of comparable data based on basic limits policies in
5 the voluntary market, rather than data based on CAARP policyholders, is reasonable and
6 consistent with the legislature's approach in setting initial rates for the pilot program, and
7 consistent with Senator Escutia's approach in reducing rates enacted in 2002 Stats. Chapter 742.
8 Using the approach first developed by consulting actuary Donald Bashline for the initial rates for
9 the low cost auto policy, the Commissioner has determined that the current rates of \$347 for Los
10 Angeles County and \$314 for the City and County of San Francisco are adequate and meet the
11 rate-setting standards of California Insurance Code Sections 11629.72 and 11629.92.

12 **ORDER**

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14 For the reasons above, it is hereby ORDERED that the current statutory rates of \$347 for
15 Los Angeles County and \$314 for the City and County of San Francisco be maintained and that
16 the current 25 percent surcharge for certain drivers be maintained.

17 Dated: July 17, 2003

18
19 **JOHN GARAMENDI**
20 **INSURANCE COMMISSIONER**

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22 _____/s/